DATE: February 17, 2004

TO: All Interested Parties

FROM: Laurie Cummings
            Mary Ann Cleary

RE: Explanation of Section 20j

The following memo explains Section 20j of the School Aid Act, which makes calculations for "hold-harmless" districts. As one cannot understand Section 20j without understanding how foundation allowances are funded, this memo begins with a general overview of foundation allowances.

Foundation Allowances
The table below shows the basic foundation allowance, maximum foundation allowance, and the dollar increase in the basic foundation allowance each year since Proposal A went into effect. The "basic" foundation allowance is the mechanism used to calculate the dollar amount of the increase in each district's foundation allowance annually. For example, if the foundation allowance increases $300 from $6,000 to $6,300, as it did between FY 2001 and FY 2002 all districts received a $300 increase in their foundation allowance. The maximum foundation allowance is the maximum amount of funding the state will guarantee from state and local sources to any district. The maximum foundation is used for capping the state funded portion of foundation allowance payments.

The Basic Foundation Allowance			
Fiscal Year	Basic Foundation Allowance	Maximum Foundation Allowance	Dollar Increase in the Basic
1995	$5,000	$6,500	na
1996	5,153	6,653	153
1997	5,308	6,808	155
1998	5,462	6,962	154
1999	5,462	6,962	-
2000	5,700	7,200	238
2001	6,000	7,500	300
2002	6,300	7,800	300
2003(b)	6,700	8,000	200
2004	6,700	8,000	-

Hold Harmless Districts
Hold harmless districts are those districts that had the highest per-pupil revenue when Proposal A was passed in FY 1994. Out of 554 local school districts in Michigan, 52 are hold harmless districts, which are defined as any district with a foundation allowance above the state maximum foundation allowance. The reason these districts have foundation allowances above the state maximum is largely due to the fact that

they had higher property values and, as a result, higher per-pupil local school revenues under the former school finance system.

The portion of a hold harmless district's foundation allowance that is above the state maximum is paid with locally levied "hold harmless" mills. For example, a district with a foundation allowance of $11,000 in FY 2004—$3,000 above the maximum allowance of $8,000—would have the authority to levy additional mills to raise the additional $3,000.

Inflationary Limits on Hold Harmless Millage
Section 1211 of the Revised School Code prohibits hold harmless districts from collecting more than an inflationary increase in their per-pupil state and local revenue. This means that if the percent increase in the basic foundation allowance exceeds the inflation rate when applied to a hold harmless district's previous-year foundation allowance, the district cannot levy the number of mills necessary to receive its full increase.

For example, a $300 foundation allowance increase for a district with a foundation allowance of $11,000 is a 2.7% increase. If the inflation rate was 2.0%, a 2.7% increase would exceed the inflation rate, and the district would not be able be to levy all of the necessary hold harmless mills to receive a full $300 increase from the previous year. Rather, it would be limited to a 2.0% increase, which calculates to only $220 per pupil, $80 less than the $300 increase that districts below the state maximum receive. The district's new foundation allowance would then be $11,220, not the $11,300 that the district would have otherwise received.

Section 20j of the School Aid Act
Section 20j of the School Aid Act was created in order to enable hold harmless districts to receive the full amount of their foundation allowance increase. In the above example, Section 20j would allow the state to make a payment to the district for the $80 per pupil. Section 20j has an estimated state cost of $54 million in FY 2004.

Please call us at 3-8080 if you have any questions or need additional clarification on this issue.